

- Year-over-year inflation rate remains at 1.8%, the lowest in the country
- Shipments up 1.3% in March
- Retail sales rise 0.7%; wholesalers post 2.3% increase in March

Prices

- **British Columbia's year-over-year inflation rate stood at 1.8% in April, the same as in March (+1.8%).** The increasing cost of energy products (+7.0%) continues to put inflationary pressure on the economy, contributing a full half of a percentage point to the overall Consumer Price Index (CPI). Excluding energy, the inflation rate was 1.3%. Transportation costs have risen 4.4% in the last year, largely due to soaring prices for gasoline (+11.3%); public (+7.2%) and private (+4.0%) transportation were both affected. Consumers are paying more for fuel oil (+4.9%) and piped gas is 4.2% more expensive; however, the relative stability in the price of electricity (+0.5%) helped moderate the inflation in the cost of shelter (+2.6%). The cost of food climbed only 0.8% and prices for household furnishings (-2.8%) and clothing (-0.6%) were both down from April of last year.

The cost of services (+2.3%) has climbed faster than that of goods (+1.1%) over the last year. Health & personal care was more costly (+2.0%) as was tuition (+2.9%), though British Columbians enjoyed lower prices for recreational equipment & services (-5.8%).

Data Source: Statistics Canada

- **British Columbians experienced considerably less inflation than most other Canadians in April.** BC's inflation rate was the lowest in the country while Alberta again saw the highest increase (+3.5%) in the overall price level. PEI (+3.2%) and Nova Scotia (+3.1%) also saw increases of more than three percent. Quebec (+2.5%) and Ontario (+2.3%) were about the same as the national average (+2.4%) which was pushed up by rising energy prices (+11.2%). Nationally, the CPI excluding energy would have been just 1.6%. Both Vancouver's

and Victoria's inflation rates were on par with the BC average (+1.8%). *Data Source: Statistics Canada*

The Economy

- **Shipments of goods by British Columbia manufacturers advanced 1.3% (seasonally adjusted) in March, partially offsetting February's 3.2% decline.** BC's two biggest manufacturing industries saw shipments rise. Shipments by manufacturers of paper products jumped a solid 7.9%, and wood producers increased their shipments 2.4%. The non-durables total inched down (-0.4%) as the increase in the paper industry was not able to offset a decline in the food (-3.7%) industry—the third largest manufacturing industry—and many other non-durable goods. On the durables side, producers of wood products, primary metals (+4.2%), and fabricated metal products (+4.9%) saw the most noticeable gains, by far outweighing a slip in the machinery industry (-4.0%).

Across the nation, manufacturing shipments increased 1.6% to \$51.4 billion in March due to widespread growth. An increase in production of aerospace products & parts (+35.7%) contributed to a 1.4% upturn in shipments of durable goods while a recovery in shipments of petroleum products (+7.2%) led to a rebound in shipments of non-durable goods (+1.9%). The soaring Canadian dollar and continued skilled labour shortages remain challenges for manufacturers, especially in Western provinces.

Saskatchewan (-1.0%) was the only province to exhibit weakness in March, while the value of shipments in Alberta remained flat (-0.0%). Every other province posted gains, with the most notable increases seen in Newfoundland (+33.0%) and New Brunswick (+8.7%).

Data Source: Statistics Canada

Did you know...

Canadians receive an average of 19 vacation days a year, but a quarter (24%) do not use all of their days and a further 10% say they usually take no vacation time at all. Source: Ipsos-Reid

- **Sales by retailers in the province rose 0.7% (seasonally adjusted) in March, after dipping (-0.2%) in the previous month.** Retailers of automotive products and furniture, household furnishings & electronics made solid gains while clothing retailers and building & outdoor home supply stores posted more modest growth. However, other retailers did not fare as well. Sales by general merchandisers were flat, and food and drug stores rang up smaller totals in March. Sales were up in most parts of the country, rising 1.5% overall. The biggest gain was in Ontario, where sales jumped 2.9% after slumping (-2.2%) in the previous month.

Data Source: Statistics Canada & BC Stats

- **Wholesale sales increased 2.3% (seasonally adjusted) in March, posting the fourth gain in five months.** Recent increases have mostly been attributable to the building materials and the machinery & electronic equipment sectors. Nationally, wholesale sales edged up 0.8%, with five provinces recording gains. The strongest sales growth in March was in Alberta (+2.3%) and BC.

Data Source: Statistics Canada

- **The number of new vehicles purchased in BC and the Territories increased 2.8% (seasonally adjusted) in March, following similar growth in February (+2.0%).** Canadian vehicle sales advanced marginally (+1.1%) reversing a slight decrease (-0.4%) in the previous month. The number of vehicles driven off car lots was up most notably in Manitoba (+7.0%) while increases in Ontario (+1.4%) and Quebec (+1.2%) accounted for most of the national gain. Alberta and PEI recorded the biggest declines in sales (both -1.9%). Sales of both North American (+0.3%) and overseas-built (+1.9%) passenger cars revved up in March as did sales of trucks, vans & buses (+1.5%).

Data Source: Statistics Canada

Tourism

- **Despite concerns over labour shortages, Canadian traveller accommodation industries remain optimistic about the near future, with 35% feeling that occupancy rates will be higher in the second quarter of 2006 and only 20% expecting lower rates.** Hoteliers also expect room rates to rise, as 45% anticipate an in-

crease in rates, while only 12% feel they will drop.

The top business impediment identified by traveller accommodation industries is a shortage of unskilled labour (32%). Excess room supply and general economic conditions are also a concern.

Data Source: Statistics Canada

- **The number of visitors entering Canada via BC borders rose (+2.8%, seasonally adjusted) in March after falling for two consecutive months.** Entries from the US, which comprise most of the visits, increased 3.1% as Americans made more same-day (+3.9%) and overnight (+2.5%) trips into BC. Travel to BC from overseas countries was also up (+1.9%) in March, boosted by a 4.9% increase in the number of Asian entries. Entries from Japan (+17.0%) and Taiwan (+15.7%) were up significantly from the previous month. Visits from Europe (+2.9%) and Oceania (+1.0%) continued to grow.

The number of Canadians returning home via BC also rose (+2.9%). Re-entries from the US were up 3.2%, with same-day car trips increasing 1.6%, the strongest gain in seven months. The number of travellers returning home from trips overseas was up 1.4% in March.

Data Source: Statistics Canada & BC Stats

The Nation

- **Canadian investors purchased a record \$9.2 billion in foreign securities in March, almost double the amount in February (\$4.7 billion).** Most of the rise in investment was due to purchases of foreign bonds (\$4.8 billion) though Canadians also invested heavily in foreign equities (\$4.3 billion). At the same time, foreign investors upped their investment in Canadian securities by \$3.3 billion as a substantial \$2.7 billion increase in bond purchases along with a \$2.0 jump in money market paper more than outweighed the \$1.4 billion drop in foreign holdings of Canadian stocks.

Data Source: Statistics Canada

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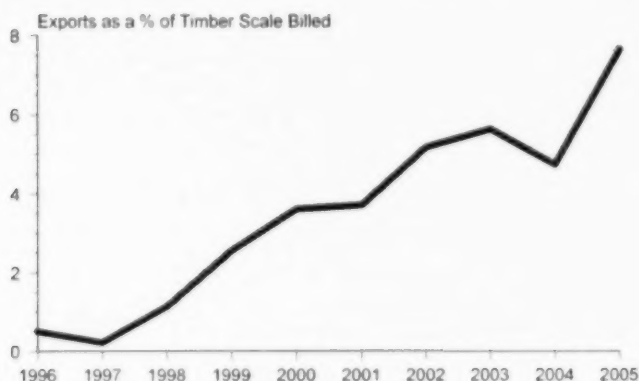
Log Exports Becoming More of a Private Affair

One of the more controversial issues in the forest sector in British Columbia is that of log exports. There have been disputes around this issue and just recently, a group in Port Alberni called "Save Our Valley Alliance" conducted a count of logging trucks carrying logs out of their valley as a way of highlighting the fact that the timber was not being processed at local mills.

Log exports from BC have long been a source of controversy

The proportion of timber harvested in BC that is bound for export has grown substantially over the last decade. Based on export data from Statistics Canada and harvest data from the Ministry of Forests and Range,¹ the percentage of timber harvested in the province that is exported as unprocessed logs has risen from approximately 0.5% in 1996 to 7.6% in 2005.

The proportion of the logs harvested in BC that is exported has risen substantially in the last decade



Sources: Statistics Canada, BC Ministry of Forests

There has been a significant increase in log exports as a percent of harvested timber in the last ten years

While there are no outright prohibitions on exports of unprocessed logs from British Columbia, there are restrictions on sales outside the province for timber from both private and public lands. Timber harvested from private land granted by the Crown prior to March 12, 1906 that is outside a tree farm license area, or from federal land or First Nations reserves, is under federal jurisdiction. Logs harvested from these lands can be sold outside the province only after they have been offered for sale within BC and no buyer has been found.

¹ Actually, the data from the Ministry of Forests and Range is timber scale billed, which is a proxy measure of harvest.

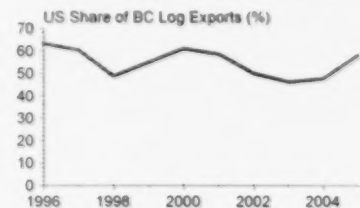
All timber harvested from provincial Crown land is under provincial jurisdiction. In addition, timber from private land that is within a tree farm license area, or from private land granted by the Crown after March 12, 1906, is also under provincial jurisdiction. The Forest Act specifies that this timber must be used or processed within British Columbia except in exceptional circumstances when they may be exempt from this requirement. Section 128 of the Forest Act specifies that these circumstances exist if the timber is surplus to the requirements of BC's processing facilities, if it cannot be processed economically near the harvesting area and cannot be transported economically to another facility in BC, or if allowing exports would prevent waste or improve the utilization of the wood.² In 2004, the provincial government tightened the restrictions further by implementing a fee in lieu of manufacture for the Coast ranging from 5% of domestic log values for lower grades of timber to 15% for Douglas fir. Previously, the fee was determined by the difference between the export price and average log values in the province with a minimum rate of one dollar per cubic metre. The fee in the Interior remains at a flat rate of one dollar per cubic metre.

The increased fees may have helped level the playing field somewhat for manufacturers faced with significant duties on lumber exports to the US. With BC manufacturers paying a substantial duty on lumber exports to the United States (27% at the time the revised fees were introduced, although it has now been reduced to just under 11%), mills in the US can afford to pay higher prices for logs harvested in BC. With over half the unprocessed logs shipped to the US (58% in 2005—Asia was the destination of most of the remainder, particularly Japan, which imported 33% of BC's log exports), this amounts to a double whammy for sawmills in BC that have to compete with American mills while facing duties deemed illegal by successive NAFTA panels.

However, despite the imposition of higher export taxes, the volume of logs exported from the province has continued to grow. In 1996, less than 0.4 million cubic metres of unprocessed timber was exported from BC out of the country and by 2005, this figure jumped to 4.7 million cubic metres, an increase of well over 1,000%.

The provincial government increased the fee in lieu of manufacture in an effort to stem the flow of logs out of the province...

The US Share of BC log exports has fluctuated from 45% to 65% in the last decade

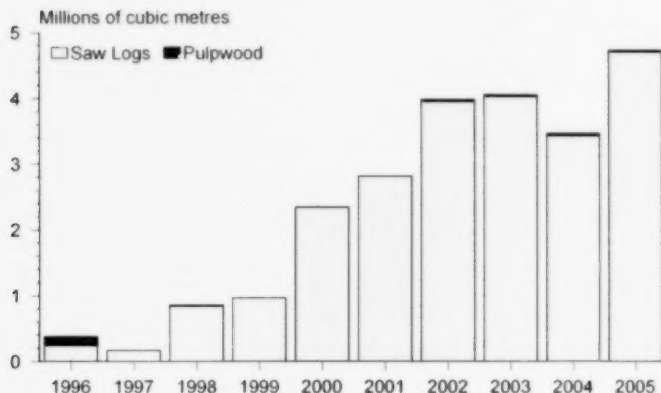


...nevertheless, the volume of logs exported has continued to grow

² The complete text of the Forest Act is available on-line at: http://www.qp.gov.bc.ca/statreg/stat/F/96157_00.htm.

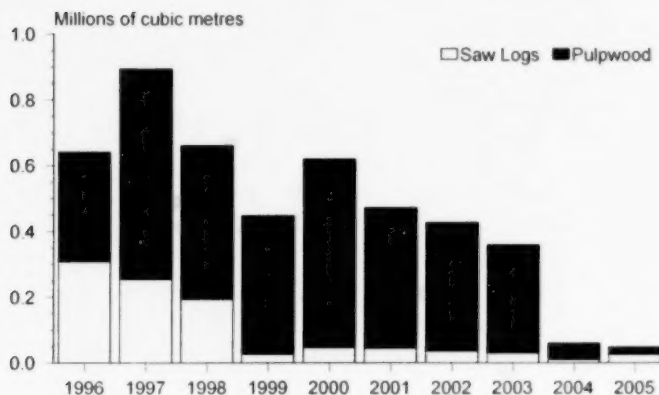
There are also logs imported into the province, but imports of unprocessed timber have been few in the last couple of years.³ In addition, the quality of timber exported out of the province is generally higher than that imported into BC. Almost all the logs exported from BC are saw logs, while most of the imported timber is comprised of pulpwood logs.

Virtually all the logs exported from BC are saw logs...



Exported logs tend to be saw logs...

...while the reverse is true for imports



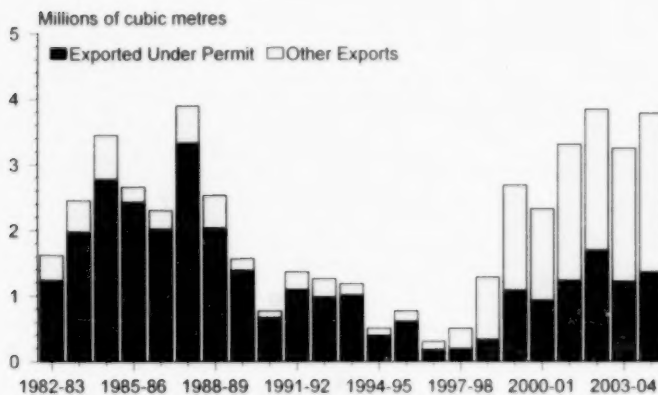
...while imported logs are mainly lower quality pulpwood

Source: Statistics Canada

³ Note that there are no data available on imports consumed within BC. All import figures refer to shipments of logs cleared through BC customs ports. It is possible that a portion of these imports was shipped to another province after entering BC, but it is likely that the large majority was consumed within the province.

One significant change in the nature of log exports over the last several years is that there has been a shift away from logs exported under permit from Crown lands and toward exports of logs from private lands under federal jurisdiction. Compared to the 1980s when between 80% and 90% of BC's logs were exported under a permit, that figure has dropped to under 40% in recent years. While exports under permit are well up from the 1990s, exports of unprocessed logs from private lands have increased even more and now comprise the majority of logs exported from the province. From 1996-97, when log exports were at their lowest level in the last two decades, to 2004-05, the latest year for which data is available from the Ministry of Forests and Range, exports of unprocessed timber that require an export permit increased almost eight fold, but the volume of exports of other logs soared to almost 18 times the 1996-97 level. Although export volumes from provincial Crown lands are higher than they were in the 1990s, they are nowhere near the levels seen in the 1980s. Yet the switch to exports from private lands has driven overall log export levels as high as they were in the peak years of the 1980s.

Log exports have shifted from logs exported under permit to other exports



Source: Ministry of Forests Annual Reports

The origin of logs exported from the province has shifted from provincial Crown land to private lands under federal jurisdiction

This return to the higher volumes of log exports seen in the 1980s has spawned protests, but defenders of exports of unprocessed timber suggest that exporting logs is not necessarily equivalent to exporting jobs. For example, mixed timber stands may sit idle because it is not economic to cut them and therefore there will be no logging, processing or transportation jobs associated with that timber. However, if there is an export market for some of the lower-priced timber, such as hemlock, then the

stands may be harvested and the higher-valued timber, such as cedar, can be processed locally. In this way, there are jobs created not only in logging, but also in processing and ancillary industries, such as transportation.

However, the majority of exported logs from BC are Douglas fir, while lower-valued species, such as hemlock, make up a much smaller share.⁴ Detractors of log exports argue that the export of this unprocessed timber means fewer processing jobs in British Columbia and less value received for BC's resources.

The softwood lumber dispute has put an even greater emphasis on log exports, since duties on Canadian lumber have created an uneven playing field for competing mills in Canada and the US, but this issue has been the cause of controversy for a long time and is likely to continue to elicit an emotional reaction for some time to come, even after the softwood lumber dispute is finally put to rest.

⁴ In 2005, Douglas fir comprised 55% of BC log exports, hemlock accounted for 25%, cedar was 7% and various species made up the remaining 13%.



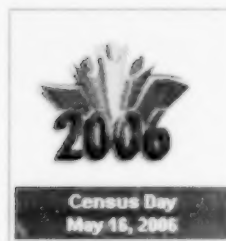
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May 19, 2006

Issue 06-20

BC at a glance . . .

POPULATION (thousands)		% change on one year ago
	Jan 1/05	
BC	4,279.5	1.3
Canada	32,422.9	1.0
GDP and INCOME		% change on one year ago
(BC - at market prices)	2005	
Gross Domestic Product (GDP) (\$ millions)	168,011	6.8
GDP (\$ 1997 millions)	144,028	3.5
GDP (\$ 1997 per Capita)	33,853	2.2
Personal Disposable Income (\$ 1997 per Capita)	20,896	3.5
TRADE (\$ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Mar	3,801	1.3
Merchandise Exports - Mar	2,955	-1.5
Retail Sales - Mar	4,346	0.7
CONSUMER PRICE INDEX		12-month avg % change
(all items - 1992=100)	Apr '06	
BC	127.1	1.8
Canada	130.0	2.3
LABOUR FORCE (thousands)		% change on prev. month
(seasonally adjusted)	Apr '06	
Labour Force - BC	2,296	0.2
Employed - BC	2,193	0.2
Unemployed - BC	103	1.1
	Mar '06	
Unemployment Rate - BC (percent)	4.5	4.4
Unemployment Rate - Canada (percent)	6.4	6.3
INTEREST RATES (percent)		May 18/05
	May 17/06	
Prime Business Rate	5.75	4.25
Conventional Mortgages - 1 year	6.25	4.90
- 5 year	6.75	6.05
US/CANADA EXCHANGE RATE		May 18/05
	May 17/06	
(avg. noon spot rate) Cdn \$	1.1125	1.2618
US \$ (reciprocal of the closing rate)	0.8977	0.7935
AVERAGE WEEKLY WAGE RATE		% change on one year ago
(industrial aggregate - dollars)	Apr '06	
BC	720.63	2.9
Canada	724.06	3.5

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics
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Released this week by BC STATS

- Consumer Price Index, April 2006
- Exports, March 2006

Next week

- BC Business Indicators, May 2006
- Current Statistics, May 2006
- Quarterly Regional Statistics, 1st Quarter 2006

